

over, service of a growing national debt is preempting an ever larger share of the budget. Net interest on the federal debt has risen from 6.4 percent of budget outlays in fiscal year 1962 to nearly 10.5 percent in 1981, and may reach 13 percent by fiscal year 1985.

While concern over the implications of chronic deficits for long-run growth and for inflation is warranted, a federal deficit can be an important instrument for countering a recession. A deficit can help moderate income losses during a recession, thereby lowering the risk of a deeper decline in the economy. Moreover, in a prolonged or severe downturn, planned deficits--from a tax cut or temporary expenditure rise--can help to reverse the economic slide. A budget forced to be in surplus or balance during a downswing in the business cycle would harm rather than help the faltering economy.

All in all, the first goal of S.J. Res. 58--balancing the budget--is meant to give much heavier weight to the objectives of economic and productivity growth, and to moderation of inflation. But in so doing, it reduces the ability of the government to counter downturns in the economy and thus creates risks that an unrestrained budget process could avoid. Even if one grants that greater concern with growth and inflation is appropriate, whether a Constitutional amendment is the right means to express this concern is another matter, discussed later in this chapter.

The Second Goal: Limiting the Size of Government. Measured by federal spending, the government has grown from about 18 percent of GNP in the late 1950s to 20 percent in the early 1970s, and to an estimated 24.1 percent in 1982. (The 1982 figure should not be overemphasized; it is more the consequence of an economy in recession than of a government on the rise.) The budget plan adopted by Congress for fiscal years 1983-1985 will gradually cut back outlays as a percent of GNP to an estimated 22.7 percent in 1985.

Whether the described trends are desirable or undesirable, too slow or too fast, enough or not enough, cannot be demonstrated by analysis; rather the answer is a matter for intuition and political judgment. Few people have an explicit view as to what percentage of the gross national product should be administered by the federal government. The American people do, however, want a strong defense, clean air, safe skies, security in old age, an efficient FBI, protection against floods, and so forth. They do not want a crumbling interstate highway system, rundown national

parks, rotten food in cans, failures in private pension plans, and so forth. The point at which the Congress and the President balance the people's infinitely numerous wants and aversions against their normal and natural reluctance to pay higher taxes will determine the size of the federal government.

If S.J. Res. 58 becomes part of the Constitution, it will represent a judgment that the size of the government at the time of ratification, measured by revenues as a proportion of national income, is about right.

New Budget Controls: Where Should They Appear?

If it is taken as a given that the Congressional budgeting process should be changed in ways that favor balanced over unbalanced budgets, there remains the question of whether to accomplish the change by rule, by statute, or by Constitutional amendment.

Proponents of change, short of a Constitutional amendment, argue that Congress has, and should use, the power to alter its own procedures in ways that strengthen the general interest in legislative combat with the special interests that press so hard for spending growth.

Those who hold this view maintain that Congress has in recent years shown greater recognition of the problem, and a willingness to deal with it, first with the enactment of the Congressional Budget Act of 1974, and since then with a variety of devices consistent with (though not originally contemplated by) that act, all of which tend to hold down spending or force committees to stay within the budget plan adopted by the full Congress.

There are, of course, many procedural changes that would favor balanced over unbalanced budgets. For example, either body could adopt a rule requiring a three-fifths majority to approve a budget deficit. But this change, as well as any other accomplished by amending legislative rules, has a major flaw in the view of supporters of a Constitutional amendment: the Congress can always decide to waive its own rules, and the next Congress can always reject the procedures of its predecessor. The same argument applies against reform by statute instead of by rule. Skeptics can and do point to the Byrd Amendment of 1978 (reaffirmed in 1980 and yet again in 1982), which provided that "Beginning with Fiscal Year 1981, the total budget outlays of the Federal Government shall not exceed its receipts," as an example of the futility of any Congressional commitment to a balanced budget.

Advocates of trying additional Congressional reform before turning to a Constitutional amendment argue, in turn, that the Byrd Amendment teaches only that declarations are not enough to change institutional behavior; it does not teach that actual procedural changes will be futile.

They also urge that flexibility in changing or waiving procedural rules from time to time is a virtue, not a vice, given the frequency of unanticipated events in the world, and that the Constitution, so difficult to amend, is particularly the wrong place to prescribe what shall be the normal fiscal policy of the United States.

Supporters of the Constitutional amendment route argue that Congress has consistently and convincingly demonstrated an institutional inability to defend the general interest against the hosts of special interests. The result--and they point to history as proof--is that spending proposals gain broad support, but that proposals to pay for the spending have no clear constituency and hence weak support at best. According to this argument, the case is already made: the Congress cannot and will not discipline itself, and budget deficits will forever be the norm unless a higher power--the Constitution--is brought to bear on the problem.

Ultimately, the issue comes back to the will of Congress. If a majority favors the kinds of change contemplated by S.J. Res. 58, then that change will occur, and can be accomplished without a Constitutional amendment. If S.J. Res. 58 should become a part of the Constitution, but not command majority support in some future Congress, it must be expected that the actual majority will search for and may well find a way to work its will.

Transition Problems

With projected on-budget deficits of over \$150 billion in each of the next three fiscal years, balancing the budget in that period does not seem like a realistic objective. Indeed, a reduction in the deficit of sufficient size to balance the budget as early as 1985 would mean a reduction in fiscal stimulus that would not be consistent with continued economic recovery, unless an improbably easier monetary policy were adopted. It is desirable, however, to work in the direction of budgetary balance along the lines contemplated by the budget resolution for 1983. But the task, however desirable, will present formidable difficulties to the Congress.

To illustrate, CBO projects that outlays for 1985 under the current Congressional budget plan will be \$910 billion. National defense, pensions, Medicare, other entitlements and net interest will consume \$807 billion. All the rest of government--education, highways, law enforcement, welfare, grants to states, disease control and so on--consumes the remainder. If there is to be any significant reduction in the \$152 billion deficit projected for that year, some combination of tax increases and cuts in all parts of the budget will be necessary.

If S.J. Res. 58 should be part of the Constitution by 1985, it follows that at least for several more years the Congress may well have to muster three-fifths votes for an unbalanced budget.

PLAN OF THIS PAPER

The next chapter begins with a review of the two perceived problems of deficits and high levels of federal spending. It then examines the degree to which the federal budget has been unbalanced in recent years; how fast federal expenditures have grown; what types of spending have driven that growth; whether the public's desires have been reflected in recent federal budgetary policy; and why the movement to change the Congressional budget process so fundamentally has gained such momentum at this time.

Chapters III and IV set out the various procedural changes that have been proposed to end federal budget deficits and limit the growth of expenditures. The options are not limited to rules and prohibitions; the discussion includes ways to improve the present process incrementally by providing more and better budgetary information to increase the government's accountability.

Chapters V and VI examine effects on the economy and the level of federal spending if either a prohibition on budget deficits or a limit on expenditures was successfully achieved. There is great disagreement over whether and under what conditions this is possible. Chapter VII, therefore, analyzes the workability of the various budget reform proposals.

CHAPTER II. THE HISTORICAL RECORD

This chapter presents background data on the frequency and magnitude of federal budget deficits and the rate and sources of federal expenditure growth. U.S. budget data support the contention that federal deficits have been growing in number and size and that the federal sector has increased steadily, if moderately, over the past 20 years.

But cross-national data do not establish a connection between a pattern of deficits and expenditure growth and a country's economic performance. In fact, over the past decade, only France and Canada of the major industrial countries had smaller deficits than the United States. Similarly, only Japan had a smaller public sector and none of the industrialized countries had public sectors that grew as slowly as that of the United States. Thus, while several countries have had greater success than the United States in maintaining lower inflation and higher productivity and economic growth, their better economic records do not appear to be based on their deficits (or lack thereof) or the size of their public sectors.

THE UNBALANCED BUDGET

In fiscal year 1982, after the enactment of the largest budget reduction in American history, the federal budget still will be in deficit for the 13th straight year, the 19th time in the last 20 years, the 42nd time in 50 years. Moreover, unified budget deficits have grown in recent years; of the \$486 billion in deficit piled up in the last 20 years, three-quarters (\$363 billion) has been accumulated since 1974. Even as a percent of the gross national product (GNP), deficits have been growing in recent years (see five-year moving averages of deficits as a percent of GNP in Figure 1). From fiscal year 1946 through 1960, federal expenditures exceeded revenues by an average of 0.4 percent of the GNP. But, over the next decade, the federal budget averaged a deficit equivalent to 0.8 percent of the GNP; and, over the last 11 years, the average magnitude of the deficit has increased to 2.4 percent of the GNP. And, if current policies are continued, the nation faces federal deficits in the 3 to 4 percent range of GNP over the next five years.

Figure 1.
Five-year Moving Average of the Total Budget Surplus (+) or
Deficit (–) as a Percent of GNP^a



^aTotal budget surplus or deficit equals the unified budget surplus or deficit plus the deficit from off-budget programs.

TABLE 1. CENTRAL GOVERNMENT NET BORROWING (SURPLUSES = +; DEFICITS = -) ON A SYSTEM OF NATIONAL ACCOUNTS (SNA) BASIS a/ AS A PERCENT OF GDP/GNP b/

Country	1974	1975	1976	1977	1978	1979	Average 1974- 1979
United States <u>c/</u>	-0.8	-3.5	-2.2	-1.6	-1.3	-0.5	-1.7
Germany <u>c/</u>	-0.5	-3.0	-2.3	-1.5	-2.1	-1.8	-1.9
France <u>d/</u>	+0.9	-1.9	0.0	-0.9	-1.3	-1.3	-0.8
United Kingdom <u>d/</u>	-1.0	-3.4	-4.1	-2.9	-3.7	-3.7	-3.1
Italy <u>d/</u>	-4.3	-8.0	-5.2	-5.1	-11.6	-11.6	-7.6
Canada <u>c/</u>	+0.7	-2.3	-1.7	-3.5	-4.9	-3.7	-2.6

SOURCE: Organization for Economic Cooperation and Development (OECD), National Accounts of OECD Countries: 1960-1977, Volume II (Paris, 1979) and communications with OECD.

a/ The SNA, used by OECD and the United Nations, is an attempt to develop national accounts that can be used to compare countries with different budget concepts and varying definitions of the public sector.

b/ The gross domestic product (GDP) is a national income concept based on production within the geographic borders of the country; the GNP covers production by and incomes to citizens of the country no matter where they may live.

c/ As a percent of GNP.

d/ As a percent of GDP.

The U.S. government is not unique in having run deficits since 1974. As indicated in Table 1, the central governments (equivalent to the U.S. federal government) of most industrial nations ran deficits after 1975 as their budgets reacted to the 1973-1975 recession--one of the most severe of the postwar era. The differences in the deficits and surpluses of various nations at various times, however, are not caused solely by different economic conditions; they also represent diverse spending and tax policies. In the case of the United States, for example, even when federal budget outlays and revenues are reestimated

under the assumption that the economy was operating at "high employment," the federal budget remains in deficit every fiscal year since 1970. 1/ These high (full) employment deficits resulted from policies aimed at reducing structural unemployment and achieving other goals, such as providing federal assistance for activities ranging from ensuring the national defense to rebuilding America's cities and compensating for the effects of inflation by periodically reducing taxes.

Focusing on central or national government budget balances can be a misleading way to compare the fiscal policies of nations, since the governmental structures of countries vary. The United States and Germany, for example, have federal systems in which many services are budgeted at state and local levels. Great Britain and France, on the other hand, have unitary structures in which the expenditures for most programs appear in their central governments' budgets.

The fiscal policies of various levels of government also vary among countries. While most of the U.S. state and local governments have legal or constitutional requirements that prohibit deficits in their operating budgets, this is not the case for some other nations. 2/ From 1970 through 1977, for example, while state and local governments in the United States averaged a surplus equal to 0.7 percent of GNP, the equivalent governments in Germany averaged a deficit equal to 1.3 percent of its GNP. 3/

1/ Frank de Leeuw and Thomas M. Holloway, "The High-Employment Budget: Revised Estimates and Automatic Inflation Effects," Survey of Current Business (April 1982), pp. 21-33.

2/ It should be noted, however, that most American state and local governments may borrow for capital expenditures. In addition, many states and localities have established various authorities that issue their own bonds. Most state and local debt, unlike federal debt, is in the form of long-term bonds and securities. In total, state and local debt has been increasing at a faster rate than federal debt; during the period 1959-1979, it grew at an average annual rate of 8.0 percent, while federal debt grew at an average rate of 5.3 percent per year. See Appendix A for a more detailed explanation.

3/ The measures of surplus and deficit used here is "net lending" within the OECD and United Nations' System of National

Figure 2 contains a thirteen-year comparison of the surplus/deficit positions of the general government sectors (made up of a country's national, state, and local governments) of the seven largest nations in the Organization for Economic Cooperation and Development (OECD). Using this measure, from fiscal years 1970 to 1982, the United States averaged smaller deficits in relation to the size of its economy than Germany, Great Britain, Italy, or Japan. It should be remembered, of course, that economic conditions, as well as budgetary policies, can vary by country.

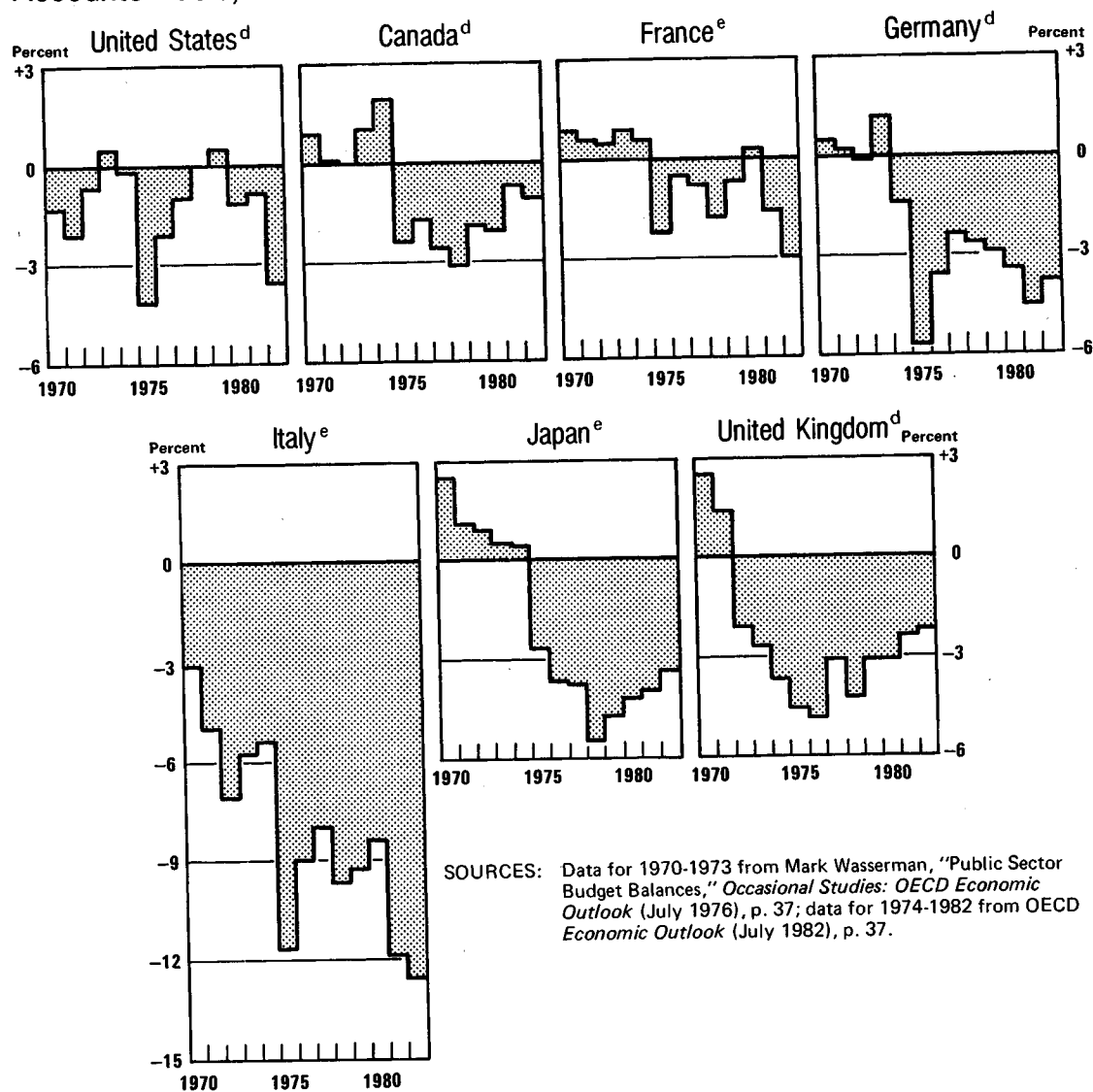
During the 1970s, several industrial countries--most notably Germany and Japan--experienced much better real economic growth than the United States. Among the major industrial nations, Germany had much greater success in controlling its level of consumer price increases. The reasons for these variations are complex and open to dispute. Among the factors frequently mentioned are more restrictive monetary policy, greater productivity resulting from a willingness to shift expenditures toward investment rather than consumption, and a more favorable balance of trade.

Although under some circumstances deficits clearly affect economic performance, the degree of a country's success in achieving economic growth is not directly related to the existence or magnitude of its public sector deficits, as shown in Figure 3. During the 11-year period of 1970 to 1980, Japan and Italy had much higher rates of real economic growth while running deficits well in excess of those of the United States. France also achieved better economic performance than the United States, although it ran much smaller deficits in comparison to the size of its economy.

Figure 4 presents the same mixed picture for the association of deficits and increasing consumer prices. France's inflation rate was almost twice Germany's although its deficits in relation to the size of the economy were much smaller. The United Kingdom

Accounts (SNA). This system is an attempt to develop national accounts that can be used to compare countries with different budget concepts and varying definitions of the public sector. See Mark Wasserman, "Public Sector Budget Balances," OECD Economic Outlook: Occasional Studies (Paris: OECD, 1976), pp. 37-51; and Raja Chelliah, "Significance of Alternative Concepts of Budget Deficits," IMF Staff Papers (Washington, D.C.: International Monetary Fund, November 1973).

Figure 2.
Selected General Government Net Borrowing (Surplus=(+);
Deficit=(-)) as a Percent of GNP/GDP^a on a System of National
Accounts Basis,^b 1970-1982^c



SOURCES: Data for 1970-1973 from Mark Wasserman, "Public Sector Budget Balances," *Occasional Studies: OECD Economic Outlook* (July 1976), p. 37; data for 1974-1982 from OECD *Economic Outlook* (July 1982), p. 37.

^a The GDP is a national income concept based on production within the geographic borders of the country; the GNP covers production by and incomes to citizens of the country no matter where they may live.

^b This system is used by OECD and the United Nations. It is an attempt to develop national accounts that can be used to compare countries with different budget concepts and varying definitions of the public sector.

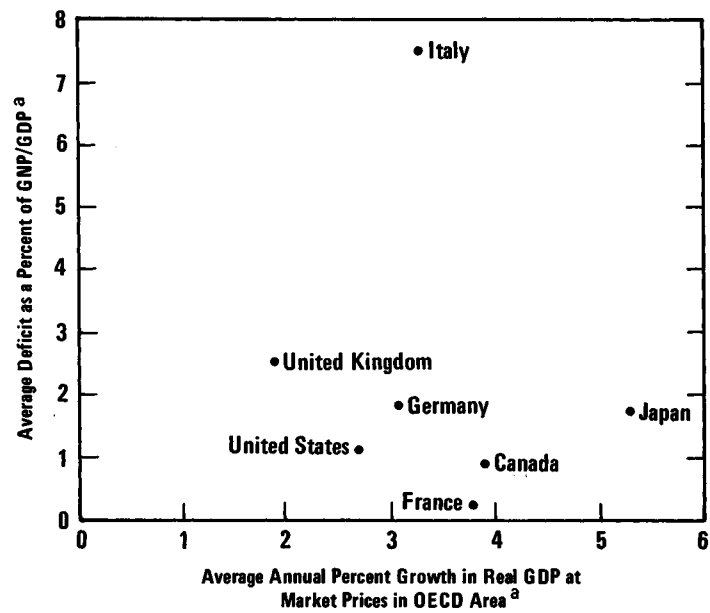
^c Data for 1981 and 1982 are OECD estimates.

^d Percent of GNP

^e Percent of GDP

Figure 3.
Comparison of General
Government Deficits
and Real GDP Growth,
1970-1980

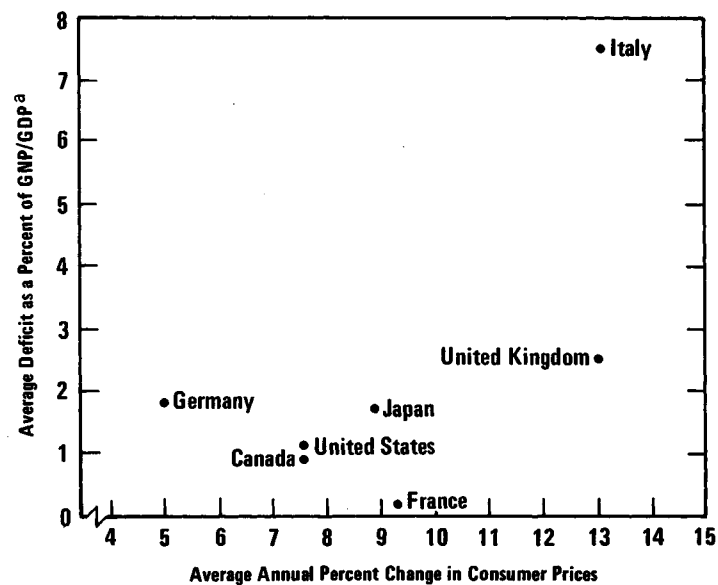
SOURCE:
OECD Economic Outlook,
Volume 31, July 1982.



^aThe GDP is a national income concept based on production within the geographic borders of the country; the GNP covers production by and incomes to citizens of the country no matter where they may live.

Figure 4.
Comparison of General
Government Deficits
and Consumer Price
Inflation, 1970-1980

SOURCE:
OECD Economic Outlook,
Volume 31, July 1982.



^aThe GDP is a national income concept based on production within the geographic borders of the country; the GNP covers production by and incomes to citizens of the country no matter where they may live.

and Italy averaged about the same rate of increase in their consumer prices, although the United Kingdom averaged a deficit of 2.5 percent of its GNP while Italy's annual average was 7.5 percent of its economy.

THE SIZE OF GOVERNMENT AND THE GROWTH OF SPENDING

In addition to the rising unease about federal budget deficits, there is a widely voiced view that the federal government is too big. The contention of bigness cannot be confirmed by some measures. The number of civilian federal employees, for example, has steadily declined from 16 per thousand of population in 1952 to less than 13 per thousand in 1981. In 1981 there were 260,000 fewer people on the federal civilian payroll than there were in 1971. On the other hand, state and local government employment has grown by more than 3.2 million over the same ten-year period--a 31 percent increase--with much of this growth resulting from the additional employees needed to administer federally funded programs. In addition, the federal government increasingly has turned to quasi-governmental units and contractors to provide services that traditionally were performed by the civil service. ^{4/}

There can be no doubt that federal spending has been rising. Between fiscal years 1951 and 1981, federal outlays grew 13 and a half times, rising from \$45.5 billion to \$657.2 billion. Significant growth occurred even when expenditures are expressed in constant dollars, with federal budget outlays increasing over two and a half times during this 30-year period.

Federal budget outlays also increased as a percentage of GNP during this period, although the growth occurred at a much more modest pace. In fiscal year 1951, outlays were about 14.6 percent of GNP; by 1961, this ratio had risen to about 19.2 percent. It rose further to 20.4 percent by 1971, and reached a post-World War II high of 23.0 percent in 1981.

If special factors--such as the increase in prices, the rising cost to the federal government of interest payments on the public debt (most of which was caused by the rise in interest rates rather than the increase in the size of the federal debt), and the decline in recent years of America's rate of economic growth--were taken into account, it could be argued that much of

^{4/} See "The Ten Million Federal Employees?" National Journal, May 5, 1979.

the apparent increase in the size of the federal sector over the past 25 years would disappear. Table 2 contains estimates of total federal outlays as a percent of GNP under four conditions: in current dollars, in 1972 constant dollars, in 1972 constant dollars with net interest removed, and in 1972 constant prices under high-employment assumptions with net interest removed. 5/

These estimates, produced by John L. Palmer and Gregory B. Mills, indicate that, while total current dollar federal outlays as a percent of current dollar GNP rose by 6.6 percentage points between fiscal years 1956 and 1981, they only increased by 3.8 percentage points when both expenditures and GNP are measured in constant dollars, indicating that the prices paid by the government rose faster than prices in general. When net interest is deducted from total expenditures expressed in constant dollars, the degree of growth during this 25-year period is further reduced to 2.7 percentage points. Finally, when total outlays minus net interest are calculated in constant dollars under high-employment assumptions and expressed as a percentage of a high-employment economy, the size of the federal sector only increases by 1.3 percentage points between fiscal years 1956 and 1981. Moreover, the estimates in the last column in Table 2 show that, since fiscal year 1966, the federal sector in relation to the economy has grown only by 0.9 percentage points and has remained basically the same size (18.9 percent of high-employment GNP) during the last five years. 6/

The growth rates of state and local expenditures have kept pace with that of federal outlays, although part of this expansion has been fueled by federal grants-in-aid. 7/ With all levels

5/ John L. Palmer and Isabelle V. Sawhill, eds., The Reagan Experiment (Washington, D.C.: The Urban Institute Press, 1982), Appendix Table A-1.

6/ Some would argue with the usefulness of these statistical manipulations by pointing out that high employment is more of a goal than a consistently achievable level and that government spending itself was partially responsible for increasing the price level.

7/ Between fiscal years 1960 and 1978, federal outlays grew at an average rate of 9.1 percent per year. Total state and local expenditures during this period grew at an average annual rate of 10.5 percent. Even with federal grants excluded, the average annual growth rate for states and localities was 9.1 percent.

TABLE 2. FEDERAL OUTLAYS AS A PERCENTAGE OF GROSS NATIONAL PRODUCT, FISCAL YEARS 1956 TO 1981

Selected Fiscal Year	Total Outlays (in current dollars)	Total Outlays (in constant fiscal year 1972 dollars)	Outlays Excluding Net Interest	
			In constant fiscal year 1972 dollars	In constant fiscal year 1972 dollars under high employment
1956	17.1	18.8	17.6	17.6
1961	19.2	20.2	18.9	17.4
1966	18.6	19.0	17.7	18.0
1971	20.4	20.2	18.8	18.2
1976	22.7	22.3	20.7	18.9
1981	23.7	22.6	20.3	18.9
Increase from 1956 to 1981	6.6	3.8	2.7	1.3

SOURCE: Adapted from John L. Palmer and Isabelle V. Sawhill, eds., The Reagan Experiment (Washington, D. C.: The Urban Institute Press, 1982), Appendix Table A-1. Data drawn from:

1. For total outlays (including budget and off-budget amounts) in current and constant dollars and GNP by fiscal year: Office of Management and Budget, "Federal Government Finances," February 1982, pp. 60-63, 60-70, and 72-75. (Off-budget outlays were converted to constant dollars using the implicit GNP price deflator for federal nondefense purchases of goods and services.)
2. For high-employment budget expenditures in current dollars and for potential GNP in current dollars: Frank de Leeuw and Thomas M. Holloway, "The High-Employment Budget: Revised Estimates and Automatic Inflation Effects," Survey of Current Business, April 1982, pp. 21-33. (High-employment adjustment to actual budget outlays was made in constant dollars using the implicit GNP price deflator for personal consumption expenditures, consistent with OMB constant dollar tabulations. High-employment GNP was converted to constant dollars using the implicit price deflator for total GNP.)

of American government spending at greater rates, the ratio of total governmental expenditures to the GNP rose by about 57 percent from fiscal year 1951 to fiscal year 1981, or from 20.7 percent to 32.4 percent of GNP.

This pattern of almost steady increase in the proportion of national output channelled through the governmental sector has occurred in nearly all industrial democracies. Although political, economic, and demographic factors have been traditionally seen as the major reasons for this growth, ^{8/} the apparent uniform growth of the public sector is almost all industrial countries has led, in recent years, to speculation that there is an institutional bias toward governmental growth in the decisionmaking processes of representative democracies.

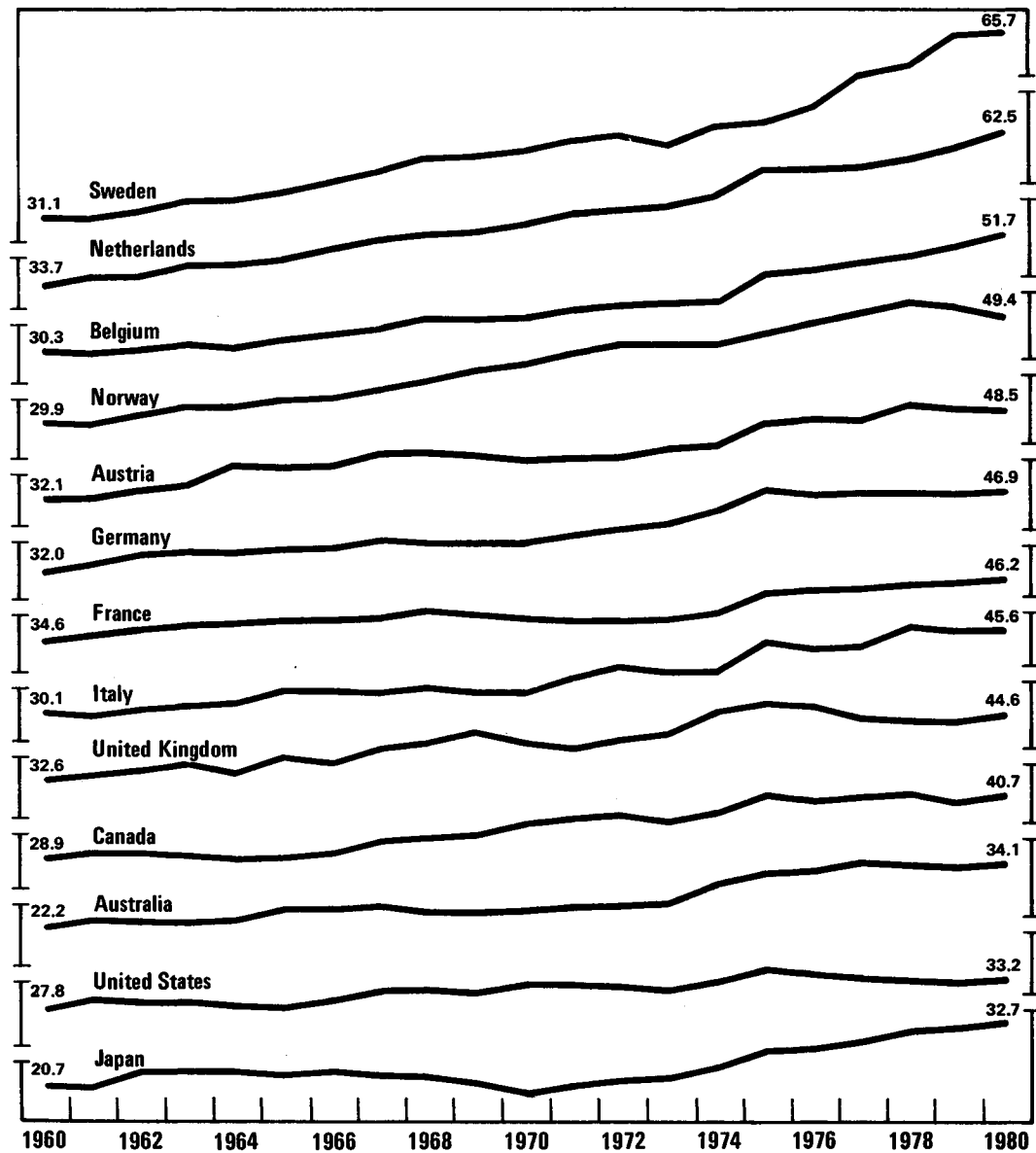
The growth rates and sizes of public sectors vary among industrial democracies, however. Figure 5 shows the evolution of total government outlays (for all levels of government--federal, state and local) as a percentage of the economies of the 13 largest member countries of the OECD during the period 1960 through 1980. The sizes of the public sectors vary from a 1980 high of 65.7 percent of gross domestic product (GDP) in Sweden to a 1980 low of 32.7 percent of GDP in Japan. ^{9/} Within this range, the United States had one of the smallest and slowest growing public sectors. In 1980 only Japan had a smaller public sector and none of the nations had a slower growing public sector.

Figures 6 and 7 illustrate that there does not appear to be any direct relationship between the size of a nation's public sector and its economic performance. For example, from 1970 through 1980, Japan, which averaged a total public sector 21 percent smaller than that of the United States, had an economy that on the

^{8/} At the turn of the twentieth century, Leon Wagner suggested a relationship between economic development, industrialization, and urbanization and the move toward a larger public sector. Daniel Tarschys, "The Growth of Public Expenditures: Nine Modes of Explanation," Scandinavian Political Studies (1975), vol. 10, pp. 9-32.

^{9/} The GDP is a national income concept based on production within the geographic borders of the country; the GNP covers production by and incomes to citizens of the country no matter where they may live.

Figure 5.
Evolution of General Government Expenditure^a, 1960-1980
(in percent of GDP^b at Current prices)



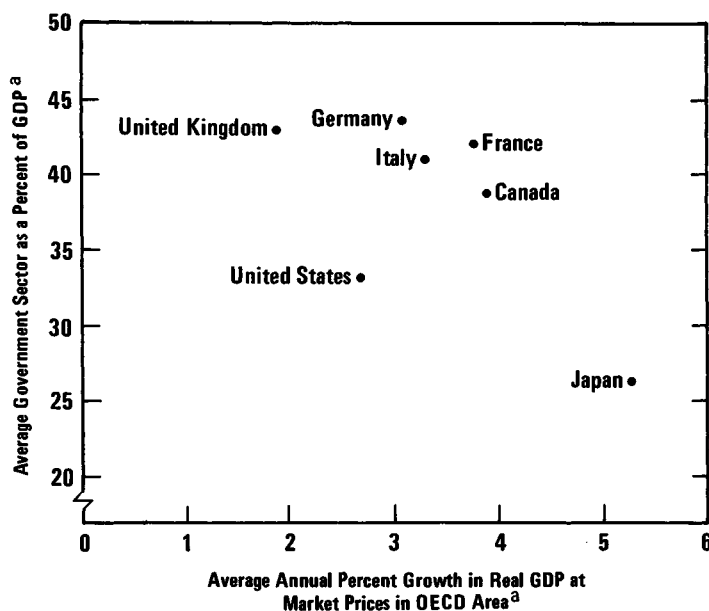
SOURCE: *OECD Economic Outlook*, Volume 31, (July 1982), p. 149.

^aIncludes total expenditures for all levels of government.

^bThe GDP is a national income concept based on production within the geographic borders of the country; the GNP covers production by and incomes to citizens of the country no matter where they may live.

Figure 6.
Comparison of the
Size of the General
Government Sector
and Real GDP Growth,
1970-1980

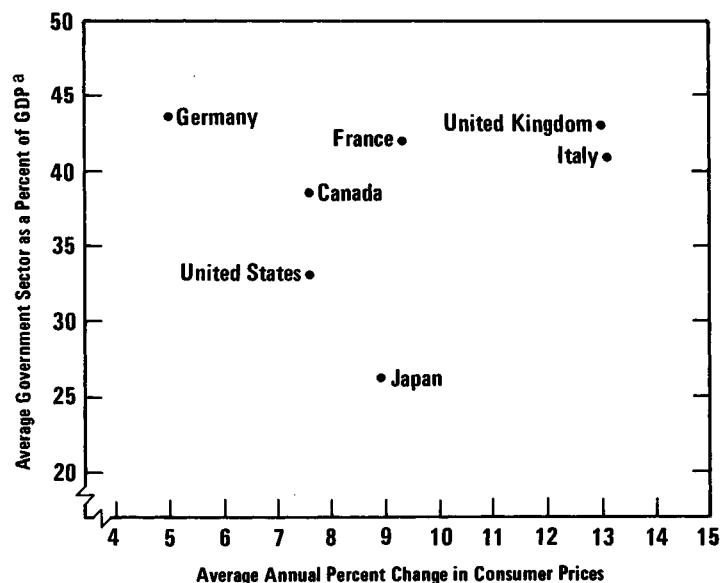
SOURCE:
OECD Economic Outlook,
Volume 31, July 1982.



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Figure 7.
Comparison of the
Size of the General
Government Sector
and Consumer Price
Inflation, 1970-1980

SOURCE:
OECD Economic Outlook,
Volume 31, July 1982.



^a The GDP is a national income concept based on production within the geographic borders of the country; the GNP covers production by and incomes to citizens of the country no matter where they may live.

average grew at a 96 percent faster rate. During the same period, France's economy outperformed that of the United States by around 41 percent, with a public sector that on the average was 27 percent larger.

The same mixed picture occurs with the relationship of the size of the public sector to the rise in consumer prices. Germany, the country that was the most successful at controlling inflation, averaged a public sector that was a third larger than America's. Japan, the only country with a smaller public sector than the United States, experienced higher consumer inflation during this 11-year period than did the United States.

These patterns can be viewed in two ways. On the one hand, it can be said that nations do have a choice. The United States, moreover, appears to have exercised that choice in favor of a relatively small public sector, by international standards. But, for those who see the growth of the public sector as a danger, the fact that most industrial democracies have larger public sectors than the United States is a warning of the inevitable future under the present decisionmaking process. Moreover, whatever the size and growth rate of the public sector, there may be particular problems with the growth of key portions of the budget.

PATTERNS OF EXPENDITURE GROWTH

Since fiscal year 1960, the growth of federal budget outlays has been caused primarily by the establishment and expansion of federal income assistance programs and, to a lesser extent, by the growth of federal grants to states and localities (see Figure 8). During the early 1950s, this was not the case. Between fiscal years 1950 and 1954--the Korean War years--military spending was the major source of budget growth, with national defense outlays increasing from 29 to 65 percent of all federal expenditures while nondefense outlays actually declined by \$5.6 billion. After the Korean period, with the exception of the peak Vietnam War years in the late 1960s, defense outlays declined markedly, so that by 1978 they accounted for only 5.0 percent of GNP--the smallest percentage since 1950--and for 23.5 percent of all federal expenditures--the smallest proportion since 1940. In the early 1980s, this trend was again reversed, with defense outlays 6.2 percent of GNP and 25.8 percent of all federal expenditures in fiscal year 1982.

Since the mid-1960s, outlays for federal income assistance programs--labeled payments to individuals--have risen dramatically, climbing from \$32.3 billion in fiscal year 1965 to \$316.6 bil-